Service Date: February 20, 1996

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER Of the Application of the MONTANA POWER COMPANY for Authority to Increase Rates for Electric and Gas Service.	)	UTILITY DIVISION DOCKET NO. D95.9.128 ORDER NO. 5865b

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INTERIM ORDER

INTRODUCTION

1. On September 21, 1995, the Montana Power Company (MPC or Applicant) filed with the Montana Public Service Commission (Commission) an application for authority to increase electric and natural gas rates. The application was assigned Docket No. D95.9.128. The filing requested an increase in electric annual revenues of $34,916,235. The filing represented a uniform percentage increase of 9.89 percent in base rates for all Montana jurisdictional electric customers. MPC requested an increase in natural gas revenues of $12,006,821. The filing represented a uniform percentage increase of 10.45 percent for gas customers. MPC’s filing was based on a calendar 1994 test period.

2. Concurrent with its general rate increase application, MPC requested an interim increase in electric revenues of $11,062,267. The electric interim request represented a uniform percentage increase of 3.31 percent. MPC requested an interim increase in natural gas revenues of $4,419,833. The natural gas interim request represented a uniform percentage increase of 3.385 percent.

3. On January 23, 1996 the Montana Consumer Counsel (MCC) filed its response to MPC's application. MCC recommended that the Commission grant a decrease in total company electric revenues of $3,693,858 and increase gas utility revenues by $3,614,485.

4. The Commission has computed the interim for the electric and gas utility using established practices for determining interim relief. The resulting interim increase to the electric and gas revenue requirements are $5,936,175 and $3,051,953 respectively. After the REC separation the electric revenue requirement is $5,812,594.

Findings of Fact

Common Adjustments

YEAR END CUSTOMER COUNT

1. The year end customer account used by MPC was "shaped" to reflect customer growth in a linear fashion over the year. This was the method that MPC presented in rebuttal testimony in Docket No. 93.6.24. The Commission found in the final order in that Docket that the actual year end customer count recommended by MCC was appropriate, therefore, the actual year end customer count is used for this Interim. This adjustment decreased the electric revenue requirement by $394,676 and the gas revenue requirement by $406,780.

TAX RATE ADJUSTMENT

2. This tax adjustment is to apply the current MPSC tax rate of .18 percent and MCC tax rate of .08 percent. This adjustment amounts to a decrease in the electric revenue requirement of $182,644 and the gas revenue requirement of $56,118.

ATTRITION ADJUSTMENT

3. MPC calculated the attrition adjustment using a CPI average from December 1993 to December 1994. The Commission finds that the attrition adjustment for this order should be determined by calculating a CPI figure that accounts for monthly changes in the CPI over only the 1994 test year. This adjustment decreases the electric and gas utility revenue requirement by $80,961 and $23,477 respectively.

HIGHWAY RELOCATIONS

4. The purpose of this adjustment is to recognize the reimbursement the company will receive for some or all of the costs incurred in relocating its facilities at the request of the highway department. This is similar to an adjustment made in Docket No. 93.6.24. This adjustment will reduce the electric revenue requirement by $9,154 and the gas revenue requirement by $7,878.

LIABILITY INSURANCE EXPENSE

5. In MPC's application, estimated insurance premiums were used. This adjustment is calculated using the latest actual premiums. The effect of this adjustment is to reduce the electric revenue requirement $10,156 and the gas revenue requirement by $2,828.

FRINGE BENEFITS

6. A reduction in the electric revenue requirement of $194,859 and the gas revenue requirement of $4,510 is attributed to this adjustment to the fringe benefits calculations. The reason for this adjustment is to eliminate the double recovery of some benefits listed in the application.

FINANCIAL ACCOUNTING STANDARD (FAS) 106

7. This adjustment is to reflect a reduction in the FAS 106 costs as acknowledged by MPC in response to intervenor discovery. FAS 106 requires that companies recognize the expense

of other post employment benefits during the time the employees work in order to match the expenses with the time period that benefits are earned. The reduction in the electric revenue requirement caused by this adjustment is $56,358 and $5,414 in the gas revenue requirement.

Electric Only Adjustments

COMPRESSED NATURAL GAS (CNG) TAX SAVINGS

8. The Company received federal tax savings for converting vehicles to run on compressed natural gas. This adjustment is to update the tax savings received. The effect of the adjustment is to decrease the electric revenue requirement by $5,791.

COLSTRIP SOFTWARE

9. The purpose of this adjustment is to correctly allocate and amortize software costs that were incurred to the benefit of Colstrip Units 1,2,3 and 4. MPC amortized this software over a five year period for Colstrip1,2 and 3 excluding Unit 4 because it was not operational at the time of purchase. MCC argued that the benefit was shared by Unit 4 and should be allocated to reflect that benefit. For interim purposes both parties agreed to this adjustment which results in a revenue requirement decrease of $24,913.

BASIN WHEELING

10. This adjustment is made to account for increased revenues due to a new contract to wheel Basin energy to Western Area Power Administration. This decreases the electric revenue requirement by $1,144,627.

COAL ROYALTIES

11. Coal royalties have been adjusted to reflect a five year average split between federal and private leases (55.47% federal/44.53% private). Montana Power Company had calculated the

royalties using a fifty-fifty split. This adjustment amounts to a decrease in the electric revenue requirement of $25,714.

<u>ASSOCIATED MOUNTAIN POWER (AMP) LINE BILLING</u>

12. The adjustment for AMP line billing is to replace the MPC estimated billing with actual billing for 1995. The electric revenue requirement will decrease by $32,451 due to this adjustment.

<u>AFFILIATED COAL ADJUSTMENT</u>

13. In Docket No. 93.6.24 the Commission found that a captive coal adjustment which reduced coal expense in the amount of $7,012,201 was proper. Docket No. 93.6.24 is the last docket where the Commission has reached a decision on the affiliated coal adjustment for the Applicant. MPC appealed the decision and its rate of return methodology to Judge Sullivan. The court upheld the Commission’s decision.

14. During the 1995 legislature, Senate Bill No. 284 was passed and signed into law. Instead of the rate of return method, the bill requires that the Commission compare the costs incurred by the public utility to the costs that the public utility would have incurred if the coal or other boiler fuel had been purchased from a different supplier under similar contract terms. The law provides that the Commission may disallow recovery in the rates charged by the public utility of any amount by which the costs incurred exceed the amount that the Commission determines to be reasonable based on the above comparison.

15. Shortly after Senate Bill No. 284 was enacted, a coal pricing dispute between Western Energy and Puget Sound Power and Light was settled by a three member arbitration panel. That decision which was retroactive to July 30, 1991, reduced the price of coal sold by Western Energy by approximately $1.20 per ton, excluding production taxes and royalties. The decision made by the arbitration panel represents independent evidence that

Western Energy has overcharged the Colstrip 1&2 partners for coal over a number of years. In this Docket MPC reflected lower coal expense for Colstrip 1&2 as a result of the arbitration decision.

16. Also noted in MPC's filing is another coal arbitration decision relating to Colstrip 3&4 is currently pending with a decision expected in April of 1996. The partners at 3&4 are seeking $6 million in damages related to uneconomic mining practices, disagreeing with Western Energy over funding of a $36 million external mining reclamation fund, and the right to purchase coal from other suppliers in excess of 600,000 tons monthly.

17. In the present Docket, given the finding of the arbitration panel with respect to coal supplied to Colstrip 1&2, the pending arbitration decision, and the testimony of the MCC witness on coal expense which conforms to Senate Bill No. 284, the Commission finds that the affiliated transactions between Western Energy and MPC must be carefully examined. Based on these factors the Commission finds, for interim purposes, that the MCC affiliated coal adjustment of $4,358,499 is appropriate.

UPDATED RESOURCE COSTS

18. An increase in the electric revenue requirement of $976,244 is caused by this adjustment to resource costs. This adjustment provides for an update to the test year expenses for fuel costs, fuel transportation costs and purchased power expenses to the latest known costs.

ACCUMULATED DEFERRED INCOME TAXES (ADIT)

19. This adjustment is to reflect a correction to the accumulated deferred income taxes reported by MPC in their application. The correction will increase the electric revenue requirement by $12,221.

Gas Only Adjustments

EXPLORATION AND DEVELOPMENT

20. MPC added $269,033 to test year exploration and development expenses, but MPC witnesses did not explain the increase. Consequently, the MCC excluded the additional expenses. For purposes of this interim order, the MCC exclusion is proper. The decrease in the gas revenue requirement caused by this adjustment is $268,890.

COST OF GAS

21. In general rate filing dockets the cost of gas is to be offset completely by gas cost revenues, because rates for changes in these account values are established in tracker dockets. In its discovery, the MCC detected that the cost of gas account was overstated by $261,864. For purposes of this interim order, the MCC reduction in the cost of gas is proper. This reduction will decrease the gas utility revenue requirement by $261,717 .

NORTH AMERICAN RESOURCES COMPANY (NARCO) PURCHASE

22. The issues of whether oil production at MPC's Cobb gas storage field is in the public interest, and whether the production facilities should be owned by NARCO or the gas utility, are pending issues in current MPC dockets. The Commission has not issued final, definitive rulings on these questions. Also, intervenors in this case object to including as used and useful, MPC's purchase of the production facilities from its affiliate, NARCO. Accordingly, for interim purposes, excluding the purchase from rate base is proper. A revenue requirement decrease of $307,797 for the gas utility will result from this adjustment.

COMPRESSED NATURAL GAS (CNG) INVESTMENT

23. In the last general gas Docket No. 93.6.24, the Commission asked parties to address the issue of whether

developing CNG vehicle refueling in Montana is critical to Montana rate payers. MPC suggested that it was uncertain. The Commission took no action on the CNG issue in the Docket No. 93.6.24 final order. In this Docket, intervenors have objected to the MPC's $287,000 investment in CNG facilities. For interim purposes, excluding this investment is proper. The impact on revenue requirements is to decrease the gas revenue requirement by $57,686.

DISCUSSION AND FURTHER FINDINGS

24. No adjustment is made in this Interim Order for the Idaho Power Company purchase or for the Thompson Falls upgrade. In its interim request, MPC included the revenue requirement impact of the purchase from Idaho Power and did not include the Thompson Falls upgrade impact. The Commission agrees that this is the appropriate way to handle these resources for interim purposes.

25. Based on the above Finding of Fact, the Commission finds that an increase in MPC's annual electric revenues in the amount of $5,936,175 is necessary to earn an overall rate of return of 9.09 percent as approved in Docket No. 93.6.24, Order No. 5709d. An increase in MPC annual gas revenues in the amount of $3,051,953 is also necessary to earn an overall rate of return of 9.49 percent for the gas utility.

26. The Commission finds that any interest on refunds that might result from this Interim Order will be calculated at 11.00 percent, the return on equity level used in this Interim Order. This is the return on equity approved by the Commission in Docket No. 93.6.24, Order No. 5709d.

27. MPC must apply this annual revenue increase to all customer classes on an equal percentage basis. The Commission

directs MPC to file compliance tariffs reflecting the interim increase for the electric and gas utility.

CONCLUSIONS OF LAW

1. Montana Power Company provides electric and gas service within the State of Montana and as such is a "public utility" within the meaning of § 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over the Montana Power Company's Montana rates and operations pursuant to Title 69, Chapter 3, MCA.

3. The Commission may, in its discretion, make temporary approvals of requests pending a hearing or final decision. § 69-3-304, MCA.

4. The rate levels and spread approved in this Order are a reasonable means of providing interim relief to MPC. The rebate provisions of § 69-3-304, MCA, protect ratepayers until there is a final Order in this Docket.

ORDER

THEREFORE THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. The Montana Power Company shall implement, on an interim basis, rates designed to increase annual Montana jurisdictional electric revenues by $5,812,594 (after REC separations) and gas revenues by $3,051,953.

2. The Applicant shall adhere to and abide by all Finding of Fact in this Interim Order. All rate schedules shall comply with all Commission determinations set forth in this Interim Order.

3. The Applicant must file tariffs in compliance with the Findings of Fact in this Interim Order.

4. Nothing in this Order precludes the Commission from adopting in its Final Order a revenue requirement different from that contained in this Interim Order.

5. Any interest associated with a refund that might result from the annual revenue increase granted in this Order will be computed at 11 percent, the approved return on equity for this Interim increase.

6. Interim approval of any matters in this proceeding should not be viewed as final endorsement by the Commission of any issues, calculations, or methodologies approved in this Order.

7. This Order is effective March 1, 1996.

DONE IN OPEN SESSION at Helena, Montana on this 14th day of February, 1996, by a 3 to 2 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

NANCY McCAFFREE, Chair
-Concurring with Commissioner Rowe's Dissent

DAVE FISHER, Vice Chair

BOB ANDERSON, Commissioner

DANNY OBERG, Commissioner

BOB ROWE, Commissioner
-Voting to Dissent-Written Dissent Attached

ATTEST:

Kathlene M. Anderson
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.

DISSENT OF COMMISSIONER ROWE
DOCKET NO. D95.9.128
ORDER NO. 5865b

The Commission's decision to grant an interim increase in electric revenues of $5,812,594 and in gas revenues of $3,051,953 is reasonable and consistent with the majority's previous decisions in MPC cases. Because I disagreed with an essential element of the prior analysis, I also disagree with the present decision.

The most recent previous MPC electric revenue requirements case, Docket 94.8.30, was resolved through a stipulation. The Commission approved the stipulation in Order 5800c, with an effective date of May 1, 1995.[1] Because the stipulation did not attribute specific dollar amounts to various issues, the Commission's order approving that stipulation did not adopt any specific changes in the analysis previously employed. As a result, the last case in which the Commission ruled on specific issues was the combined gas and electric case, Docket 93.6.24, Order 5709d. Several of the Commission's decisions in that docket are at issue in the current proceeding and may be revised based on the full record after hearing. However, for purposes of

[1]In Docket 94.8.30, the Commission also approved an interim rate increase (Order 5800b) In dissenting I noted that the Commission's procedures for evaluating interims were adopted during a period of rapidly-increasing utility costs and when utilities were required to file applications based on historical test years. In contrast, utilities now may elect to file under generally more favorable optional rules, which employ information updated to year-end, and which contemplate filings every other year (but do not prohibit more frequent filings). MPC files under the optional rules.

In Docket 94.8.30 I also expressed concern about approving an interim increase only seven months into the year for which rates had been set by the previous case. A similar issue exists as to the electric interim increase in the current case. In this case, the interim is scheduled for implementation ten months into the rate-effective period from the previous electric case.

deciding an appropriate interim order, it is proper to employ the method previously decided upon, with limited modifications as may be justified by initial review of the parties' filings in the current case.

I disagreed with several elements of the majority's decision in Order 5709d. However, my present dissent is confined to one issue, rate of return on common equity. The Commission's present order uses an eleven percent return on common equity, as did the majority in Order 5709d. In that case, I evaluated the evidence and determined that the record supported a rate of return of 10.5 percent, which was the high-end of the range supported by the Montana Consumer Counsel's witness. Consistent with my analysis of evidence in the prior case, I would also support a 10.5 percent rate of return for purposes of determining any interim increase in the current case. A 10.5 percent return on equity, with other adjustments as made by the majority, would produce an interim electric increase of $2,369,366 and an interim gas increase of $2,097,477.[2]

I disagree with the Commission's underlying analysis. However, I respect the Commission's order as a principled application of the majority's prior decisions, pending a final order in this case.

RESPECTFULLY SUBMITTED this 14th day of February, 1996

BOB ROWE
Commissioner

[2]In the present case, MPC and the Consumer Counsel have both filed return on equity proposals, with separate recommendations for gas and electricity. While both the figure used by the majority in determining the interim and the figure I would use are based on our previous analyses, both are within the broad range of outcomes described in testimony filed in this case to-date.

I join in Commissioner Rowe’s dissent.

NANCY McCAFFREE
Chair